Concentrated Value Equity

Q2 2020

Overview

Equity indices staged a remarkable comeback in the second quarter following last quarter's quickest-ever bear market descent. Posting their best quarterly return since 1998, U.S. stocks shrugged off the continued spread of the coronavirus, dismal real-time economic data, and nationwide civil unrest sparked by the death of George Floyd. Buoyed by massive government stimulus, the hope for a COVID-19 vaccine, and indications of sequential economic improvement, value stocks performed well on an absolute basis, with the Russell 3000® Value Index (RAV) returning 14.55%, but they again lagged their growth counterparts. Perhaps not surprisingly, this quarter was often a story of reversals, with many stocks and sectors hardest hit in the first quarter performing best in Q2, while the strongest performers in Q1 often advanced the least in the second quarter.

Portfolio Performance & Developments

Cooke & Bieler's Concentrated Value Strategy returned 19.27% gross of fees (19.06% net of fees), significantly outperforming the benchmark and nearly offsetting its underperformance during the first quarter. Stock selection was additive while allocation effect slightly detracted from relative results. Stock selection effect was strongest within Consumer Discretionary, Information Technology, and Industrials – sectors which posed the biggest headwinds in the first quarter – as some of the worst performing stocks during the March downdraft such as Winnebago and Arrow Electronics recovered strongly. Stock selection effect within Health Care and Financials was also additive. Negative selection results were concentrated in Consumer Staples and Communication Services.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Winnebago	5.1	140.7	474
Arrow Electronics	5.7	32.4	184
Colfax	3.7	40.9	135
AerCap	4.3	35.1	130
Syneos Health	1.6	40.3	125

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Hexcel	0.2	-15.9	-73
Wells Fargo	4.1	-9.0	-47
Philip Morris	5.6	-2.4	-7
Omnicom	4.3	0.6	-4
Charles Schwab	4.7	0.9	16

Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Concentrated Value institutional portfolio's gross of fees return relative to the Russell 3000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Concentrated Value clients. To obtain the calculation's methodology and a list showing every holding's contribution to the overall account's performance during the quarter, contact your client service representative or email your request to contact@cooke-bieler.com.

Largest Contributors

Winnebago (WGO), a leading manufacturer of recreational vehicles, was the largest contributor. WGO recovered forcefully from its first quarter lows due to surging retail demand for recreational vehicles as consumers sought out open-air, domestic vacation alternatives in the face of COVID-19 related travel restrictions and transmission fears. These purchases by first-time RV consumers should augment WGO's already strong market share momentum.

Arrow Electronics (ARW), a solutions provider for users of electronic components and enterprise computing, was the second-largest contributor. The stock bounced back after poor first quarter performance as investors became increasingly comfortable with the demand outlook and the company's ability to generate strong cash flows.

Colfax (CFX), an acquisitive conglomerate with strong welding and orthopedic franchises, was the third-largest contributor. After the stock underperformed during the first quarter, investors were pleasantly surprised to find that CFX's results prior to the emergence of COVID-19 were stronger than expected. Management also assuaged investor concerns over a potential debt covenant issue by amending their revolver at a minimal cost.

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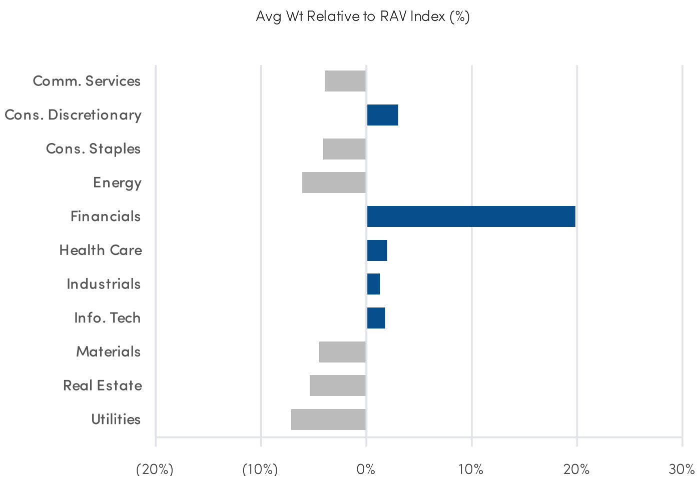
Largest Detractors

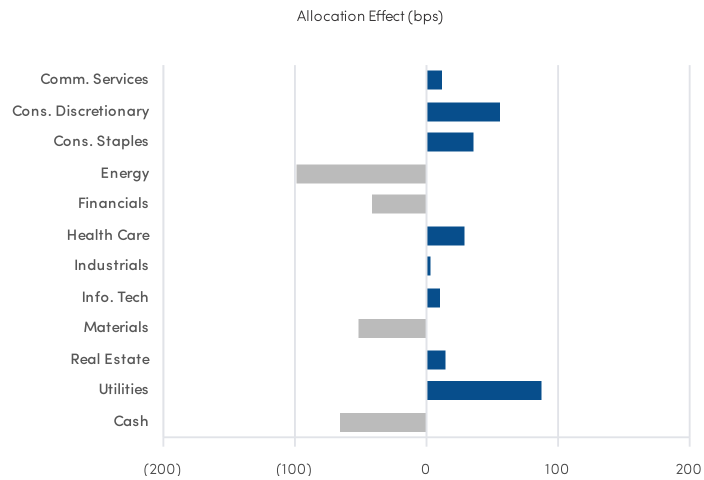
Hexcel (HXL), a global leader in designing and manufacturing advanced composites, was the largest detractor. The stock was eliminated early in the quarter to make room for better opportunities.

Wells Fargo (WFC), a leading financial services provider with strong deposit and credit culture, was the second-largest detractor. The stock suffered as COVID-19 delayed the company's expense reduction efforts. Regulatory and political backlash have also hindered these improvement efforts. Nonetheless, we continue to believe in the company's potential upside.

Philip Morris (PM), a leading global tobacco products manufacturer, was the third-largest detractor. PM had strong performance during the market's deep first quarter selloff thanks to relatively resilient demand for the company's products but participated less fully in the second quarter market recovery.

Sector Positioning





Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Concentrated Value institutional portfolio's gross of fees sector return relative to the Russell 3000® Value Index. Please see additional performance disclosures at the end of this document.

Sector allocation effect was positive in the majority of economic sectors but still slightly detracted from the portfolio's excess return in the second quarter. Key drivers of the negative results included the portfolio's underweight to Energy and Materials – two of the best performing sectors within the benchmark – and an overweight to Financials – one of the worst performing sectors within the benchmark. The underweight to Utilities and Consumer Staples and the overweight to Consumer Discretionary all benefitted relative results, offsetting some of the negative performance.

Initiations

U.S. Bancorp (USB) is one of the largest non-money center banks, with over $250 billion in loans and more than $300 billion in deposits. USB has been generally conservative when taking credit risk and has a good record of cost consciousness. Recently, they have also made significant investments in upgrading their technological capabilities.

Woodward (WWD) engineers, produces, and supports energy and motion control systems for commercial and defense aircraft systems and engines, various industrial turbines and engines, and other related applications for leading global manufacturers. WWD's technology, long-term customer partnerships, and aftermarket support lead to solutions that generally improve performance and reduce emissions for customers' end products, often requiring strict regulatory certification. The company's long-term prospects are insulated from economic shocks by significant exposure to defense and more recurring aftermarket sales, along with a conservative balance sheet.

Eliminations

Hexcel (HXL) and **Syneos Health (SYNH)** were eliminated to make room for better opportunities.

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Outlook

The market's resilience in the midst of unimaginable circumstances has been no less than miraculous. Just three months ago we warned against reflexively seeking safety. Now, with stock prices nearly back to pre-pandemic levels and many valuations at historic highs, we worry investors are being cavalier about still elevated economic, political, and social uncertainties. This quick and sharp reversal reflects the fickle, unpredictable nature of investors' impulses. We recognize sentiment often moves markets in the short term, but sentiment-driven strategies transform investing into a game of chance. We also know that fundamentals ultimately drive stock prices and that companies with sustainable, favorable underlying economics are positioned to drive long-term outperformance. So, as always, we remain intently focused on long-term fundamental investing. Given current circumstances, we are evaluating the portfolio's existing and prospective holdings through the lens of two critical questions: does the company have the near-term financial wherewithal and liquidity to endure a prolonged economic downturn, and is the business positioned to thrive in the post-COVID world. We are confident the portfolio is composed of companies well positioned to survive the downturn and ultimately succeed. The market recently began to recognize these characteristics after largely ignoring them during the February/March meltdown, but there appears to be further upside based on the portfolio's meaningfully discounted valuation.

Sources: APX, Bloomberg, FactSet, Forbes, Financial Times, MarketWatch

Additional Cooke & Bieler Concentrated Value Performance Disclosures